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INTELLIGENCE BRIEF

UNEVEN PERFORMANCE OF THE SOVIET OIL AND GAS INDUSTRIES IN 1965

DIRECTORATE OF INTELLIGENCE
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UNEVEN PERFORMANCE
OF THE SOVIET OIL AND GAS INDUSTRIES IN 1965*

Summary

Although production of both crude oil and natural gas in the USSR in 1965 was in excess of the annual plan, results were mixed for the industry as a whole. Production of crude oil in 1965 exceeded the upper limit of the original goal of the seven-year plan (1959-65) by about 1 percent, but natural gas fell short of its original goal by 14 percent, both because of inadequate transmission capacity and the slowness of consumers in converting from other fuels. The production successes in 1965 were offset by failures in the pipeline and refinery construction programs. Exports of oil continued to increase, reaching about 25 percent of supply, and developments in natural gas foreshadowed an important role for this commodity in future Soviet foreign trade.

* The estimates and conclusions in this brief represent the best judgment of this Office as of 14 February 1966.

1. Production

In 1965, Soviet production of crude oil reached 243 million tons,* an increase of about 8.7 percent, compared with 1964, and was in excess of the original seven-year-plan goal of 230 million to 240 million tons (see Figure 1). 1/ The extraction of natural gas increased by 17 percent, to an estimated 127.4 billion cubic meters, but output fell short of the seven-year-plan goal by 14 percent (see Figure 2), reflecting both inadequate transmission capacity and the failure of consumers to convert from other fuels.

Production of crude oil was begun in two major new oil-producing areas -- in West Siberia and on the Mangyshlak Peninsula of Kazakhstan -- but the contribution of these areas to national supply was insignificant. The Urals-Volga oilfields continued to provide the bulk of the crude oil output as production accounted for somewhat more than 70 percent of the Soviet total in 1965. 2/

2. Pipelines

The pressing need to move increasingly larger quantities of fuel into the energy-deficient European USSR forced Soviet officials to make two important decisions in 1965 in an effort to meet this need. Construction was begun on a 3,375-kilometer (km) dual 40-inch gas pipeline designed to move gas from Central Asia to the Moscow industrial region (see Figure 3). 3/ This was followed by formulation of plans to develop the newly found gasfields at Novyy Port, located in Tyumen' Oblast about 120 km north of the Arctic Circle. Gas from Novyy Port will be supplied to Leningrad and to Minsk in Belorussia via a 3,000-km pipeline, construction of which is to begin in the near future. 4/

Oil and gas pipeline construction during 1965 was not marked by any outstanding achievement. Construction emphasized the building of natural gas systems, as has been the pattern in recent years. Work continued on the building of a second gas pipeline between the Gazli fields in Uzbek SSR and the Urals. This 2,000-km 40-inch pipeline was to have been completed in 1965, but actual construction has fallen short of plan. The reasons for this shortfall are not clear, but it may be that a portion of the steel pipe allocated to construction of this pipeline has been diverted to initial construction on a third pipeline between Gazli and

* Tonnages are given in metric tons.

the Urals.* Construction also continued on an inter-republic gas pipeline system in Central Asia.

Only one major oil pipeline is known to have been completed in 1965 -- the 430-km 20-inch crude oil pipeline from the Shaim oilfields in West Siberia to Tyumen'. 5/ Construction continued on parallel oil pipelines between Baku and Batumi and between Sakhalin Island and Komsomol'sk on the mainland. Extension of a crude oil pipeline beyond Yaroslavl' in the direction of Leningrad continued, and the first few kilometers were installed on the 1,000-km 40-inch pipeline between the Ust'-Balyk oilfields in West Siberia and the Omsk oil refinery. Finally, the Polotsk-Ventspils oil pipeline, of major concern in Soviet plans to export larger quantities of oil from the Baltic area, was not finished in 1965, as had been planned, and construction is being carried over into 1966. 6/

3. Refining

Only one oil refinery -- Kirishi, located about 100 km southeast of Leningrad -- came on stream in 1965. 7/ Because the first crude oil was not delivered to Kirishi until late December, these new facilities were of no practical use to the refining industry during the year. Nevertheless, total capability to refine crude oil in the USSR is estimated to have increased by 13 million tons, or by 6 percent. This growth in capability was obtained through a combination of expansion of existing refineries and a more intensive use of available capacity. Except for continuing spot shortages of diesel fuel, petroleum products generally were available in quantity and quality adequate for domestic needs.

4. Trade

Preliminary estimates for 1965 indicate that the USSR probably exported on the order of 61 million to 62 million tons of crude oil and petroleum products, equal to about 25 percent of supply and about 8 to 9 percent more than in the previous year. Thus exports of oil grew at a rate which matched that for crude oil production. It is not possible to

* Construction of a third gas pipeline between Gazli and the Urals was not included in the original seven-year plan. However, experience gained in operation of the Gazli-Ural Gas Pipeline No. 1, which was completed in 1963, has found that the pipeline, for technical reasons, could not move gas in the scheduled amounts. To carry the amount of gas originally scheduled for Gazli-Ural Gas Pipelines No. 1 and No. 2 -- 21 billion cubic meters annually -- would now require the construction of a third line.

breakdown deliveries by country of destination. The export of oil from the USSR in 1965 probably represented maximum capability, but there is no evidence of domestic supply having been curtailed in order to expand exports. In general, oil continued to be marketed in areas and under conditions which would bring about the greatest return.

During 1965 the USSR demonstrated an increasing interest in trade in natural gas. The USSR is to import considerable quantities of gas, ultimately reaching about 13 billion cubic meters per year, as part of expanded trade relationships with Iran and Afghanistan. A 1,000-km pipeline is to be built from the Gach Saran - Agha Jari fields in the south of Iran to Astara on the Iranian-Soviet border. 8/ The pipeline, to be completed in 1970, is to supply Azerbaydzhan with about 10 billion cubic meters of gas annually by 1975. Iran's earnings from the sales of gas to the USSR will be used to repay the US \$290 million credit granted Iran by the USSR for the construction of a steel mill, a machine tool plant, and the gas pipeline.

The Shibarghan gasfields in northern Afghanistan will ultimately be tapped for about 3 billion cubic meters of gas annually. A pipeline is to link these fields with Dushanbe, the capital of the Tadzhik SSR. 9/ Proceeds from the sale of gas to the USSR will be used to reduce the currently unfavorable trade balance between Afghanistan and the USSR.

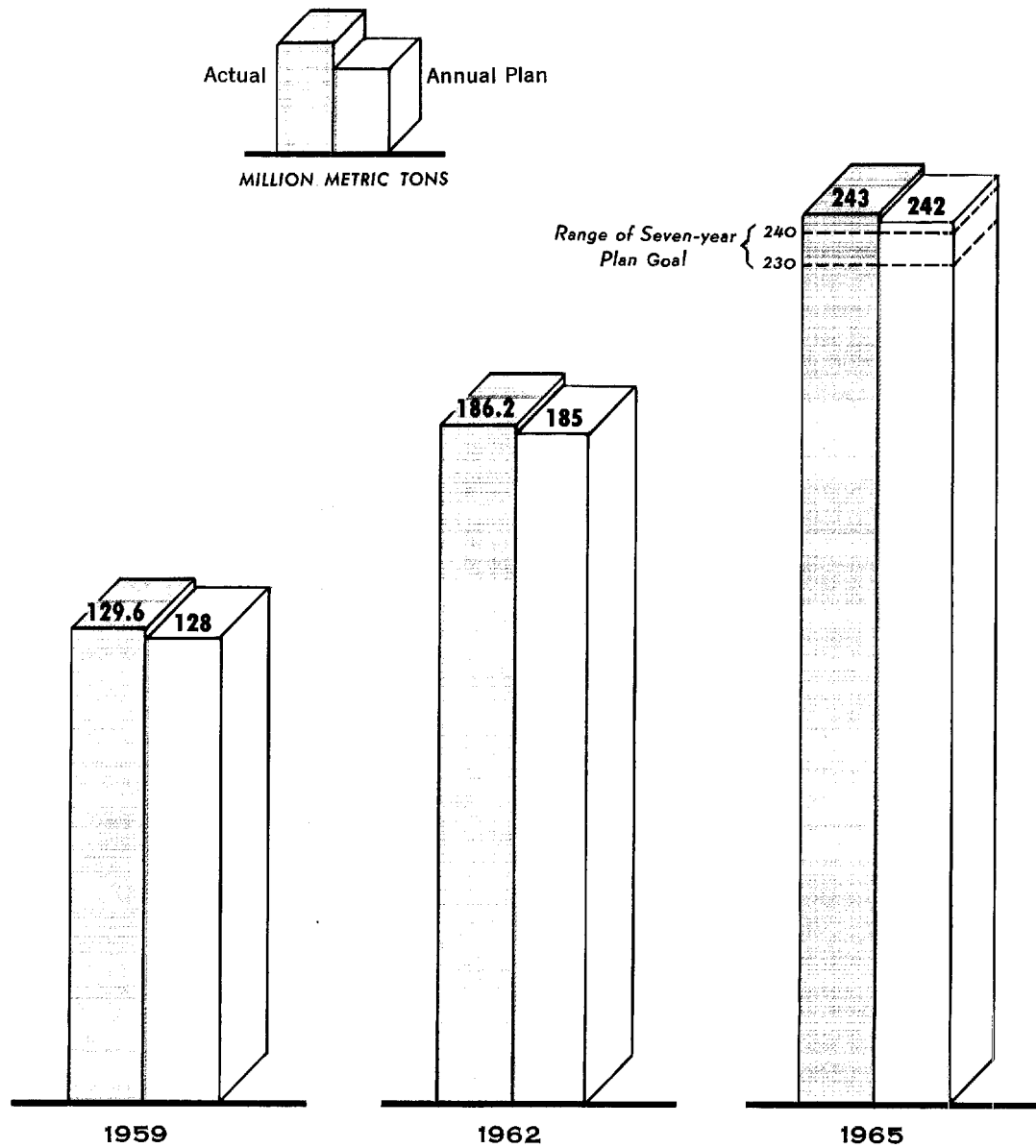
Imports of gas by the USSR may be balanced off by exports to Poland, Czechoslovakia, Japan, and Italy. Negotiations with Japan reportedly involve the construction of natural gas liquefaction facilities on Sakhalin Island and the acquisition of special tankers for the delivery of the liquefied gas to Japan. 10/ Japan presumably would supply the liquefaction equipment, steel pipes, and the tankers, valued on the order of US \$200 million. Rumored sales of gas to Italy involve the construction of a pipeline from the USSR through Hungary and Yugoslavia to northern Italy, with exports on the order of 7 billion cubic meters annually.

Natural gas quite probably will play an important role in Soviet foreign trade in future years. This commodity, which the USSR possesses in abundance, is finding increasing international use as an industrial and household fuel and as a petrochemical raw material, and sales abroad could help to meet growing Soviet foreign exchange requirements.

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Figure 1

USSR: Trends in Production of Crude Oil Selected Years, 1959-65



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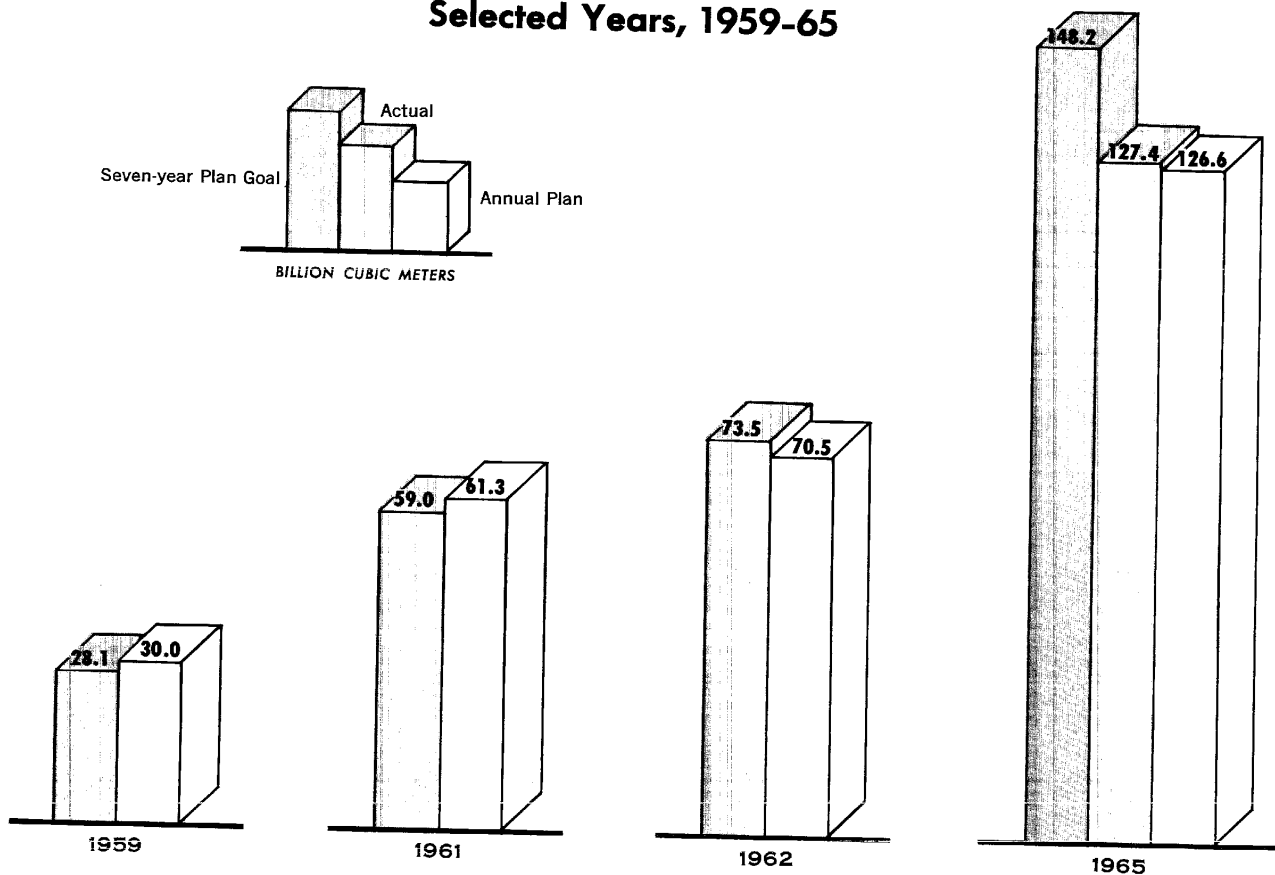
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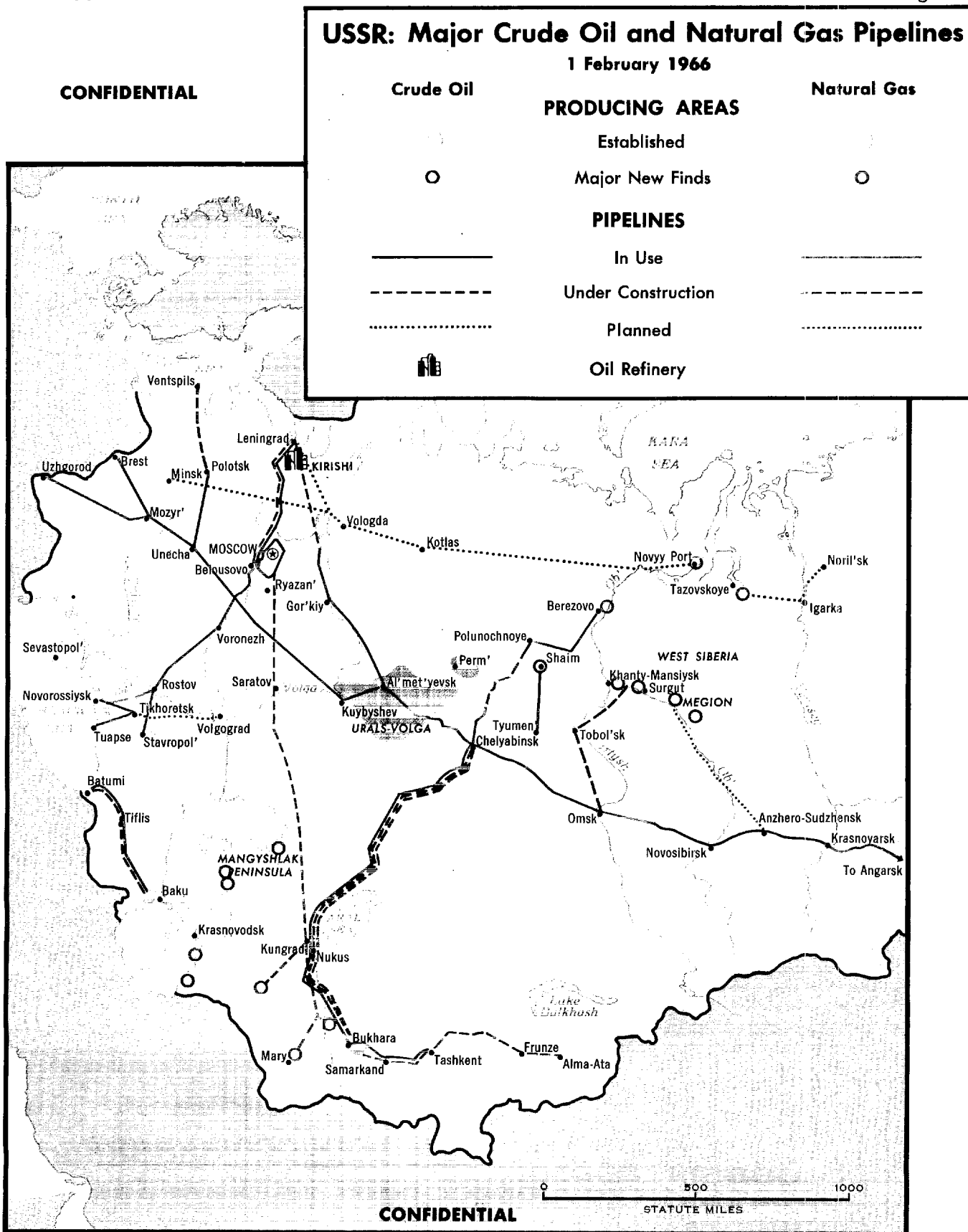
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USSR: Trends in Production of Natural Gas Selected Years, 1959-65

Figure 2





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7 March 1966

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